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Self-Help Groups and the Rural Financial Market in South India: A Case of a Tamil Nadu Village

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Abstract

After analyzing the process of development of the Self-Help Groups (SHGs) in a study village located in the Madurai District, Tamil Nadu, we evaluated the impacts of the SHGs and found that they had certain impacts on the alleviation of poverty in the village, although there was an apparent limitation. The major limitation was the small size of loans through the SHGs, either from savings and revolving fund or from the banks, but another major limitation lay in the fact that the poorest people were excluded from the SHGs, especially the poorest women from the female-headed households. On the other hand, there were increasing opportunities to save. Since the mid-1990s, the shift of occupation from agriculture to non-agricultural sectors has accelerated, and the income of rural households started to rise rapidly in rural Tamil Nadu, including in the study village. It was in this context that there emerged a rapid rise of surplus money in the hands of rural residents except for the poorest, which started to be saved in various forms, one of which was the savings in the SHGs.

Keywords: Self-Help Group, saving mobilization, Tamil Nadu, poverty alleviation

Introduction

Micro-finance through organizing Self-Help Groups (SHGs) has come to be the most popular micro-finance scheme in India since the early 1990s, and remains so until today. An SHG is a village-based financial intermediary usually composed of between 10 to 20 local women. Members make small regular savings contributions over a few months until there is enough capital in the group to begin lending. Funds may then be lent back to the members for any purpose. The SHGs are thereby totally different from the most popular type of micro-credit in the world, such as the Grameen Bank in Bangladesh, in the sense that they are the real intermediary between those who have surplus money and those who

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have a deficit. The Grameen Bank, by contrast, although it also mobilizes savings, basically re-lends money that is borrowed from international and/or domestic donors. In India, however, SHG members can get bank loans through the "SHG-Bank Linkage Program" if they have shown good performance for several months. In this sense, the SHG in India is the mixed form of informal mutual-financing and recipients of formal bank loans.

According to NABARD [2010], as of March 2010 there were nearly 7.0 million SHGs in India, representing 97 million members, who have taken loans from banks under its linkage program. This does not include SHGs that have not borrowed. The "SHG-Bank Linkage Program" since its inception has been predominant in the south Indian states of Andhra Pradesh, Tamil Nadu, Kerala, and Karnataka. These states accounted for 76% of the SHG credits linked during the financial year 2009–10.[1] Tamil Nadu is one of the most active states for delivering bank loans through the SHGs.

Table 1 illustrates the current status of SHGs with bank linkage in Tamil Nadu. The amount of savings per SHG ranged between Rs.3,000–25,000 depending on banks, and the amount of loan per SHG disbursed in 2009–10 ranged between Rs.19,000–166,000, usually Rs.10,000 per member of the SHG. It was also found that the rate of non-performing loans (NPL) was usually very low, except a few cases with substantially high figures.

SHGs are usually organized by NGOs. Let us here examine the case of the Dhan Foundation, a Madurai-based NGO. The Dhan Foundation, among its diverse activities, has had a micro-finance project through organizing the SHG (*Kalanjiam*) under the name of "*Kalanjiam* Community Banking Programme" (KCBP) since 1990, when a pilot project was initiated. As will be explained later, our study village is located in the Madurai District, the core area of the Dhan Foundation's activities. According to the latest annual report [Dhan Foundation 2010], as of March 2010 KCBP was extended to 12 states and regions (Tamil Nadu, Pondicherry, Andhra Pradesh, Kerala, Karnataka, Orissa, Maharashtra, Madhya Pradesh, Rajasthan, Jharkhand, Bihar, and Assam) and 45 districts, and the number of *Kalanjiam* and their members reached 28,488 and 485,867, respectively, indicating the average number of members per group as 17. The accumulated savings and reserves reached Rs.1,928 million, or nearly Rs.67,700 per group and Rs.4,000 per member. During the fiscal year 2009–10, a total of 17,542 loans were disbursed using their own savings, with Rs.39.26 million or Rs.2,238 per loan. In addition, 12,080 bank loans were disbursed to the groups, with an amount of Rs.1,294 million or Rs.107,120 per group.

1) If we classify by type of banks, out of Rs.144.5 crores of loan disbursement during 2009–10 in the whole country, 95.6 crores (66.2%) was disbursed by public commercial banks, and 33.3 crores (23.0%), 13.4 crores (9.3%), and 2.2 crores (1.5%) was disbursed by regional rural banks (RRBs), cooperative banks, and private commercial banks, respectively [NABARD 2010].

Table 1　SHGs Which Received Bank Loan in Tamil Nadu

	No. of SHG	No. of Members	Average No. of Members per SHG	Savings (million Rs.)	Average Savings per SHG (Rs.)	Loan Disbursed to SHG during 2009–10			% of NPL againt Outstanding Amount
						No. of SHG	Loan Amount (million Rs.)	Average Loan Amount per SHG (Rs.)	
Public Commercial Banks	563,745	8,585,911	15.2	6,739	11,954	171,671	18,939	110,321	3.03
State Bank of India	164,062	2,955,614	18.0	1,558	9,496	32,459	3,749	115,500	7.06
Indian Bank	130,401	1,986,015	15.2	1,760	13,497	64,435	8,336	129,371	0.16
Canara Bank	102,704	1,783,161	17.4	321	3,125	17,109	1,724	100,766	3.05
Indian Overseas Bank	92,629	1,130,074	12.2	2,314	24,981	22,960	3,318	144,512	1.30
Others	73,949	731,047	9.9	786	10,629	34,708	1,812	52,207	NA
Private Commercial Banks	54,882	691,781	12.6	201	3,662	7,886	806	102,206	7.45
Regional Rural Banks	75,202	500,064	6.6	438	5,824	21,816	1,556	71,324	9.74
Pandayan Grama Bank	55,715	203,880	3.7	204	3,661	15,483	504	32,552	20.41
Pallavan Grama Bank	19,487	296,184	15.2	234	12,008	6,333	1,052	166,114	1.74
Cooperative Banks	132,881	NA	NA	1,660	12,492	57,788	4,311	74,600	1.51
Salem DCCB	15,501	206,697	13.3	151	9,741	3,852	331	85,929	1.63
Tiruchirapalli DCCB	13,619	184,170	13.5	194	14,245	5,318	457	85,935	NA
Villurupam DCCB	11,664	221,616	19.0	35	3,001	8,889	531	59,737	0.89
Madurai DCCB	11,409	148,317	13.0	39	3,418	4,929	94	19,071	14.55
Tiruvannamalai DCCB	10,258	NA	NA	58	5,654	3,376	352	104,265	NA
Others	70,430	NA	NA	1,183	16,797	31,424	2,546	81,021	NA
Tamil Nadu total	826,710	NA	NA	9,038	10,932	259,161	25,612	98,827	NA
All India	6,953,250	NA	NA	61,987	8,915	1,586,822	144,533	91,083	2.94

Source: NABARD [2010].
Note: DCCB means District Central Cooperative Bank.

The Dhan Foundation conducted a detailed study on the impact of KCBP [Dhan Foundation 2004]. The major points indicated in the report were as follows:

1) Since *Kalanjiam* provided its members with credit (95% of members received a minimum amount of Rs.5,000 in cases where they had been with a *Kalanjiam* for more than three years) at a 2% per month interest rate, they could get rid of the usurious debt from moneylenders. A major proportion of loans provided from the *Kalanjiam* were for redeeming the members' debts through informal financing sources (28%), followed by productive and asset creation purposes such as agriculture and livestock (15%), housing (14%), and small economic activity (9%).
2) At the same time, all the investigated *Kalanjiams* had received at least one loan from local commercial banks, and all of them gained access to formal credit systems only because of the *Kalanjiams'* existence. The average amount of loans mobilized by the *Kalanjiams* under study from commercial banks was Rs.103,778 per group.

3) The intervention of the *Kalanjiams* was observed to have made significant changes in the debt status of the members with informal financing sources. These sources usually provide credit at exorbitant interest rates ranging from 35 to 120% per annum. Slightly more than 81% of members interviewed had debt with these sources when they joined the *Kalanjiam*. Around 51% of the members completely settled the debt they had at the time of joining the *Kalanjiam*. The average amount of such debt repaid by a member was Rs.10,267.
4) The percentage of informal loans borrowed at a 60% annual interest rate by the members came down from 36 to 26 after the intervention of *Kalanjiam*. Similarly, the loans borrowed at a 120% interest rate declined from 17% to 8%. The usurious practice of lending at a rate of 275% per year was completely eradicated. The access to credit at an annual interest rate of 24% (or 2% per month) increased from merely 6% to 11%.
5) All the *Kalanjiam* members studied had savings in their *Kalanjiam*. On average, a member saved Rs.5,301 in the case of a *Kalanjiam* older than 5 years, which was higher than the savings of Rs.3,590 in the case of a *Kalanjiam* of 3–5 years of age. After the intervention of the *Kalanjiam*, members were able to save Rs.100 per month on average. Around 72% of the members saved Rs.100 per month.
6) Around 74% of members were found to have invested in assets after joining the *Kalanjiam*. The assets included productive assets such as agricultural land, livestock, and petty trade and non-productive assets such as jewelry and household durables. Around 24% of the members of a 3–5 year old *Kalanjiams* and 26% of members from the more than 5 year old *Kalanjiams* invested in livestock, worth Rs.8,421 and Rs.13,954, respectively. Similarly, 20% of the members from 3–5 year old *Kalanjiams* and 33% members of the more than 5 year old *Kalanjiams,* respectively, invested in economic activities such as petty shops, tailoring, and hawking.
7) There was an increase in the family income after the intervention of the *Kalanjiams*. In the case of the 3–5 year category, the increase in the income was slightly less than 30% from the situation at the time of joining the *Kalanjiam*. The same figure was around 45% in the case of the more than 5 year old *Kalanjiams*.
8) Slightly less than 33% of the members interviewed stated that their access to food in terms of frequency/quality/quantity improved after joining the *Kalanjiam*. Around 60% of the members reported that they had sufficient food even before becoming a member. Nearly 55% of the members of the more-than-5-year category reported that their housing condition improved after joining *Kalanjiams*. Around 48% of the members were covered under life insurance schemes in the post *Kalanjiam* situation, while the same figure was merely 4.3% before the

intervention of the *Kalanjiam*.

9) There was some evidence which showed that after joining the *Kalanjiams* the women members became more empowered. The areas of empowerment included reduced domestic violence, husbands sharing the household work, assets in the name of women, decision making ability, and women's place in the public sphere.

In sum, the impacts of KCBP by the Dhan Foundation were found to be positive and significant in terms of income, savings, freedom from informal usurious financing, asset building, quality of life, food intake, and women's empowerment.

The major objective of this article is to conduct the same type of impact study on SHGs in the study village in the Madurai District, although less rigorously. However, there are some major differences between our study and the Dhan Foundation's. First, we will pay more attention to the issue of who became the members of SHGs, by categorizing all the village households into five economic classes. And we clarify that, unexpectedly, the middle classes are more enthusiastic in joining the SHGs, when compared to richer and poorer classes. Second, we will focus more on the role of SHGs in mobilizing savings rather than in extending credit. After the mid-1990s, the shift of occupation from farming (including agricultural labor) to non-agricultural sectors accelerated and accordingly income levels of rural households started to rise rapidly in rural Tamil Nadu, including our study village. It is in this context that there occurred a rapid rise of surplus money in the hands of rural residents except for the poorest, which started to be saved in various forms, one of which was the savings in SHGs.

The composition of the article is as follows. The first chapter introduces the outline of the study village. The second chapter will explain the process of introduction and development of micro-finance schemes in the study village since the 1980s, including the Integrated Rural Development Program (IRDP) and the SHGs. The third chapter will make an analysis of the impacts of SHGs in the village. Finally, we will make some concluding remarks.

I　The Study Village

The study village is Si Village belonging to Sowdarpatti *Gram Panchayat*, Thrimangalam *Taluk*, Madurai District, the same village in the two papers written by Keiko Sato in this special issue. Therefore, we omit the description of the study village here. The survey on the SHGs was conducted in January 2010 by the authors, and we provide a detailed discussion on the role of SHGs in the village, based on household-level data collected by Keiko Sato, one of the authors, in 2008.

II Process of Introduction of SHGs

II-1. *Integrated Rural Development Program (IRDP)*

Before the introduction of SHGs in 1992 in the study village, the Integrated Rural Development Program (IRDP) was introduced in the early 1980s. Let us first examine the process and significance of the program.

The IRDP is a well-known micro-credit scheme implemented all over rural India, mainly during the 1980s. In the study area, introduction and/or promotion of dairy farms was encouraged through the program. According to our field survey in Si Village in January 2010, the development of dairy farms in the village proceeded as follows.

Under the government policy to promote dairy farms, a village-level "Si Milk Society" was established in 1980. Forty-five members received a calf by a bank loan (Rs.800) from the Canara Bank (one of the public commercial banks in the locality) under the "Calf Rearing Scheme." The interest rate charged was 1% per month and the borrowing period was 6 months. Then in 1982, IRDP was introduced in the village and 15 members received loans (Rs.4,000 each) from the Canara Bank under the same conditions in order to buy buffaloes. Moreover, subsidy (one-third and 50% of the principal for "small farmers" and SC agricultural laborers, respectively) was provided by the government.[2)] In 1985, 20 members again received bank loans (Rs.12,000 each member) to buy a set of a bullock and a cart. The lending condition was the same as for the earlier loans. Then in 1986, a new 10-year program to introduce hybrid cows was started. A loan of Rs.5,000 was provided from the Canara Bank to a maximum of 10 members each year under the same lending condition. One member could receive the loan a maximum of two times within the project period. The hybrid cows provided were covered by insurance, and a veterinarian was dispatched from the government every Saturday to check the cows.

Since the inception of the society, milk had been sold to the Tamil Nadu Cooperative Milk Producers Federation Limited and farmers were paid every 15 days through a society account at the Madurai District Central Cooperative (MDCC) Bank. The milk collection was carried out twice a day (6 AM and 6 PM) and 80–150 liters of milk was collected each time. However, the activity of the society gradually lessened and finally stopped in 2002.[3)] Factors responsible for this include an increase in droughts since the mid-1990s and the mobility of male workers who became "temporary migrant

2) Note that in the early 1980s the daily wage rate was Rs.15 for men and Rs.8 for women.

3) After the year 2000, IRDP itself transformed and remained as SGSY (*Swarnjayanti Gram Swarozgar Yojana*) and started micro-finance activity in rural India [Department of Rural Development, Ministry of Rural Development, GOI 2009].

workers" [Sato 2011] and usually stayed outside the village since the late 1990s onwards. This facilitated the villagers to shift their major livestock from cows to goats/sheep, which can be easily handled by women. Another factor was the introduction of the SHGs as explained below.

II-2. *The Self-Help Group (SHG)*

Since the early 1990s, a micro-finance program organizing the SHGs was started, and the SHGs have grown rapidly until the present day in India. As the SHG program grew, the IRDP lost its importance and finally vanished. The SHG is totally different from the IRDP in the sense that it mobilized savings from its members and lent them back to members who are in need of credit, instead of just receiving credit from banks. It is basically a mutual help system among the rural poor women, although there is also a system of providing bank loans through the SHGs.

The SHG is organized mainly through assistance from NGOs. An SHG consists of 10–20 poor women. They gather once a month and collect a small fixed amount of savings, which is lent back to members at a low (compared to moneylenders) interest rate. The responsible NGO monitors its activity for a while and, if its performance is judged favorable, the NGO recommends that local banks (including cooperative banks) provide them with loans under concessional terms and conditions (at a low interest rate and without collateral). This system is called the "SHG-Bank Linkage Program." If all the members fully repay the loan, half of the principal is reimbursed as a government subsidy in Tamil Nadu.

According to our field survey in Si Village in January 2010 there were 7 existing SHGs (in addition, 2 SHGs stopped their activities in 2006 and 2007), which are listed in Table 2. The process of introduction and development of the SHGs in the village was as follows.

II-2.(1) *ASSEFA*

An NGO, the Association of *Sarva Seva* Farm (ASSEFA), first introduced the SHG program in the village in July 1992. They organized 2 SHGs with 20 women members each,[4)] and the members saved Rs.30 (Si West SHG) or Rs.50 (Si East SHG) every month. After 6 months, the ASSEFA provided Rs.13,000 as a "revolving fund" to each SHG, which was added to the SHG's own savings. The SHG members borrowed money at a 3% (Si West SHG) or 2% per month (Si East SHG) interest rate.[5)] Note here that

4) There were no particular conditions for joining an SHG, except for the age limitation that members should be below 50 years old.

5) At that time, if villagers borrowed money from village moneylenders, they had to pay a 5% per month interest rate. Later (accurate year was unknown), however, the interest rate charged by village moneylenders declined to 2.5–3.0% per month. Accordingly, the SHGs also reduced the lending interest rate among the SHG members to 2% per month.

Table 2 Profile of SHGs in Si Village

	ASSEFA		PARD/Dhan Foundation					TNCDW
	West	East	Roja	Anjugam	Kanaki	Omsakti	Athiparasakti	No name
Establishment	July 1992	July 1992	April 1999	March 2001	September 2001	March 2004	March 2004	February 2006
No. of members	20	20	20	20	20	20	20	12
Monthly saving (Rs.)	30	50	50	30	30	50	60	50
Interest rate for lending (% per month)	3	2	2	?	?	2	2	2
Revolving fund (Rs.)	13,000	13,000	25,000	25,000	25,000	?	?	10,000
From which institution/bank	ASSEFA	ASSEFA	MDCC Bank	?	MDCC Bank	?	?	Dept. of Agriculture
Repayment	No need to repay	No need to repay	Rs.10,000 repaid	Repaid fully in 4 months	Rs.15,000 repaid in 7 monts	?	?	No need to repay
Bank loan (1st)								
Amount (Rs.)	10,000/15,000 per member	10,000/15,000 per member	200,000	200,000	200,000	200,000	200,000	–
From which bank	Canara Bank	Canara Bank	SBI	MDCC Bank	MDCC Bank	SBI	SBI	–
Interest rate (% per month)	1	1	1	1	1	1	1	–
Disbursement	1993	1993	2001	August 2002	2003	June 2007	March 2005	–
Period (maximum)	12 months	12 months	?	36 months	20 months	?	48 months	–
Period (actual)	?	?	50 months	20 months	12 months	42 months	12 months	–
Restrictions in usage	Goat or sheep/ poultry	Goat or sheep/ poultry	Goat or cow	Goat or sheep	?	?	Goat	–
Subsidy	Yes (33%)	Yes (33%)	?	Yes (50%)	Yes (50%)	No	Yes (50%)	–
Bank loan (2nd)								
Amount (Rs.)	10,000 to 15 members	10,000 to 12 members	200,000	200,000	Total 30,000 (3 members)	–	180,000	–
From which bank	Canara Bank	Canara Bank	?	SBI	SBI	–	SBI	–
Interest rate (% per month)	1	1	1	1	1	–	1	–
Disbursement	1993	1993	2006	2006	2006	–	November 2006	–
Period (maximum)	18 months	18 months	?	50 months	?	–	50 months	–
Period (actual)	?	?	40 months	37 months	?	–	30 months	–
Restrictions in usage	Cow	Cow	?	No (Gov. wanted members to buy goats)	House renovation	–	No	–
Subsidy	No	No	?	No	Yes (25%)	–	No	–
Bank loan (3rd)								
Amount (Rs.)	12,000 per member	?	–	–	200,000	–	–	–
From which bank	Indian Bank	?	–	–	SBI	–	–	–
Interest rate (% per month)	1	?	–	–	1	–	–	–
Disbursement	1996	?	–	–	December 2007	–	–	–
Period (maximum)	36 months	?	–	–	50 months	–	–	–
Period (actual)	15 months	?	–	–	20 months	–	–	–
Restrictions in usage	No	?	–	–	No	–	–	–
Subsidy	Yes (33%)	?	–	–	No	–	–	–

Table 2 – Continued

	ASSEFA		PARD/Dhan Foundation					TNCDW
	West	East	Roja	Anjugam	Kanaki	Omsakti	Athiparasakti	No name
Bank loan (4th)								
Amount (Rs.)	50,000–100,000	100,000–200,000 to 8–13 members	–	–	–	–	–	–
From which bank	Canara Bank	SMBT	–	–	–	–	–	–
Interest rate (% per month)	1	1	–	–	–	–	–	–
Disbursement	every 10 months after 1998	3 years for 2006/07/08	–	–	–	–	–	–
Period (maximum)	?	12 months	–	–	–	–	–	–
Period (actual)	?	12 months	–	–	–	–	–	–
Restrictions in usage	No	Cottage industry/ Small business	–	–	–	–	–	–
Subsidy	No	?	–	–	–	–	–	–
Training								
How many times	1	?	?	2	2	?	?	2
No. of participants	2	?	?	7 and 1	3 and 8	?	?	all members
Kind of traning	Pest management	?	?	Organic farming/ HIV consciousness	Accounting/ Organic farming	?	?	Cotton cultivation/ Milch animals
Remarks	Since 1994 or 95 monthly saving Rs.50; lending interest rate 2%/month	Monthly saving: Rs.100 since August 2008	Transferred to Dhan Foundation	Transferred to Dhan Foundation	Transferred to Dhan Foundation	Transferred to Dhan Foundation	Transferred to Dhan Foundation	Member increased to 15
Remarks	Since 2003 only 13 members	–	–	Monthly saving: Rs.50 since 2002 and Rs.60 since 2005	Monthly saving: Rs.50 since 2003 and Rs.60 since 2006	–	–	–
Remarks	Stopped in 2007	–	–	–	–	–	–	–

Source: Prepared by the authors.

the accumulated savings (plus interest) were distributed among members once in 5 years.

For example, in the case of the “Si East SHG,” the amount of Rs.1,000 of savings was collected (Rs.50 multiplied by 20 members), which was assumed to be lent back to a member at a 2% per month interest rate for 10 months. In the next meeting, the borrower had to repay Rs.120 (Rs.100 for principal and Rs.20 for interest) in addition to contributing the regular savings of Rs.50. Then, another member could borrow a maximum Rs.1,020 under the same condition. If such cycles are repeated, the total amount of savings (plus interest) became nearly Rs.100,000 within 5 years. According to the instructions, after 5 years the SHG is dissolved and the accumulated money is equally distributed to the members, at nearly Rs.5,000 per person. Then, they start a new SHG activity again if they wish.

In the meantime, the SHG members could get bank loans. Actually, in 1993, all the members of the 2 SHGs received a loan from the Canara Bank amounting to Rs.10,000 in the case of rearing goats or sheep, and Rs.15,000 in the case of rearing poultry, usually for 1 year (maximum 3 years) at a 1% per month interest rate.[6] One-third of the principal was reimbursed as a government subsidy when borrowers repaid the loan. Almost at the same time, 27 members (15 from the "Si West SHG" and 12 from the "Si East SHG") obtained a loan from the Canara Bank for cow rearing worth Rs.10,000 per cow. The interest rate was 1% per month and the repayment period was usually one and a half years (maximum 3 years). No subsidy was provided in this case, however. The ASSEFA organized a milk society called the "ASSEFA Milk Society." They collected milk twice a day (3 AM and 3 PM) by visiting the village. However, the society's activity gradually lessened afterwards and finally stopped in 2005.

According to the former President of the "Si West SHG," the next bank loan they received was in 1996 from the Indian Bank. Rs.12,000 was borrowed by each member at a 1% per month interest rate. The repayment period was 3 years, but actually they completed repayment within 15 months. When they fully repaid, one-third (Rs.4,000) of the principal was reimbursed as a subsidy. After that, they continued to receive bank loans from the Canara Bank every 10 months. The loan amount ranged between Rs.50,000–100,000 for the whole group. The interest rate was 1% per month but there was no subsidy. However, when they (the 13 members) got the last loan from the Canara Bank worth Rs.70,000 in early 2007, a problem arose (a member disappeared after getting a loan, but the details were unknown) and finally the SHG discontinued its activity in February 2007. In 2010 there were still overdue worth Rs.5,600 in the Canara Bank.

On the other hand, the other group, named the "Si East SHG," was still active at the time of our survey. According to the President of the group, she remembered only the following three instances of the latest bank loans from the *Sarvodaya* Mutual Benefit Trust (SMBT), a subsidiary organization of the ASSEFA: Rs.100,000 in July 2006 which was distributed to 10 members, Rs.125,000 in 2007 to 8 members, and Rs.200,000 in 2008 to 13 members. The interest rate was 1% per month and the repayment period was 1 year. The "official" purposes of borrowing from SMBT were for promoting cottage industry, small business, etc.[7] but actually they said they used the loans mainly for agriculture and livestock. Sometimes they even purchased gold or invested in children's education.

6) The actual interest payment to banks was 0.8–0.9% per month under the SHG program, but the spread between 1% and 0.8–0.9% was given to NGOs for covering their cost.

7) According to our interview at the ASSEFA Thirumangalam Office in January 23, 2010, the SMBT gets loans from the Small Industries Development Bank of India (SIDBI) at a 9% per annum interest rate and they sub-let it to their SHGs at a 12% per annum interest rate.

II-2.(2) *PARD*

Another NGO, the People's Association of Rural Development (PARD), was the second organizer of SHGs in Si Village. In 1999, they started to organize SHGs and a total of 7 SHGs were established by 2004. The following is the results of the interview conducted in January 2010. Note that an SHG named "Muthalammam," which stopped its activity in 2006 due to some internal conflict, was omitted from the description below.

a) "Roja"

An SHG named "Roja" was established under PARD in April 1999, with 20 women members. They saved monthly Rs.50 per person and the interest rate charged for borrowers in the group was 2% per month. After 6 months, they received a loan of Rs.25,000 from the MDCC Bank to use it as a "revolving fund."

In the meantime, they took bank loans. The first loan was Rs.200,000 to the whole group with free interest from the State Bank of India (SBI) in 2001, which was equally distributed among the members. They repaid the loan within 50 months. Then, in 2006, they again received a loan of Rs.200,000 with a 1% per month interest rate (the name of the bank is unknown). They repaid a total of Rs.6,000 per month (for around 40 months).

b) "Anjugam"

Another SHG named "Anjugam" was established in March 2001 with 20 women members.[8] The monthly saving was set at Rs.30 per person at first. They were also given a "revolving fund" amounting to Rs.25,000. They received the first bank loan (total Rs.200,000) from the MDCC Bank in August 2002 with a subsidy of 50% of the principal, and later in 2006 they received a bank loan again from the SBI at a 1% per month interest rate without government subsidy.

c) "Kanaki"

Another SHG named "Kanaki" was organized in September 2001 with 20 women members. The amount of monthly savings was set at Rs.30 per person at first.[9] They also received a loan of Rs.25,000 as a "revolving fund," which was repaid within 7 months, and obtained a subsidy of Rs.10,000. In 2003, they received the first loan from the MDCC Bank amounting to Rs.200,000 with a 1% per month interest rate. They had an obligation to purchase goats with the loan. They had to repay the loan within 20 months, but actually repaid in 12 months. Half of the principal (Rs.100,000) was reimbursed as a sub-

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8) According to the respondent, out of 20 members, 15 members were selected by the PARD, and the remaining 5 members were recruited by the selected president of the group.

9) Later they increased the amount to Rs.50 in 2003 and further to Rs.60 in 2006.

sidy. The next loan they received was from the SBI, which provided Rs.10,000 to 3 members for house renovation with a 1% per month interest rate (Rs.2,500 was reimbursed as a subsidy). The third loan (without subsidy) was also from the SBI in December 2007, amounting to Rs.200,000 in total which they could use for any purposes. They had to repay it within 50 months, but actually completed repayment in 20 months.

In addition, they participated in training courses organized by the PARD as follows: 3 members attended a training of accounting in 2001 for 3 days (participants were provided with a daily allowance of Rs.60 per day), and 8 members attended a training of organic farming in 2005 for 7 days (a daily allowance of Rs.70 was provided).

d) "Omsakti"

Another SHG named "Omsakti" was established in March 2004 with 20 women members. They saved Rs.50 per month, and the members could borrow it at a 2% per month interest rate. In June 2007, they received a loan from the SBI at a 1% per month interest rate, but without subsidy. They repaid it in December 2009.

e) "Athiparasakti"

The last SHG, named "Athiparasakti," was established in March 2004 with 20 women members. They saved Rs.60 per month and the members could borrow it at a 2% per month interest rate. They received a loan from the SBI Rs.200,000 at a 1% per month interest rate. Goats had to be purchased with the loan. They had to repay it within 48 months, but actually repaid in 12 months. They were reimbursed a subsidy of 50% of the principal. In November 2006, they again received a loan from the SBI amounting to Rs.180,000 at a 1% per month interest rate (without subsidy). There was no restriction in using the loan. They actually purchased gold, repaid other loans, invested in children's education, or used the money for social ceremonies.

It should be noted here that all the SHGs belonging to PARD decided to be transferred to the Dhan Foundation after the PARD made an announcement to withdraw from the SHG program at the time of our survey in 2010.

II-2.(3) *TNCDW*

An SHG was organized by the Tamil Nadu Corporation for Development of Women, Ltd. [TNCDW 2010] in February 2006 with 12 women members. They saved Rs.50 per month and the members could borrow it at a 2% per month interest rate. They were provided Rs.10,000 as a "revolving fund" from the Department of Agriculture, Tamil Nadu. All the members also joined a training course of cotton cultivation for 4 days (every Monday for 4 weeks) in January 2009. In addition, 12 members joined a training course for milch animals for one day in February 2009 at Thirumangalam Town.

II-3. *Discussion*

To summarize, it can be said that in the study village, the major objective of the micro-finance schemes, including the IRDP and the SHGs, was to encourage rural poor women to keep livestock such as milch animals (buffaloes and hybrid cows) at first and goats/sheep later. It seems that the shift from milch animals to goats/sheep was mainly attributed to 1) the recent change to a drier climate in the study area, represented by more frequent droughts occurring in the 21st century, and 2) the labor shortage, especially shortage of male labor among the rural households.

The "Si Milk Society" was active during the 25 years from 1980 to 2005. In addition, the "ASSEFA Milk Society" was established in the early 1990s and continued its activity also until 2005. It seems that these milch animal projects played an important role in providing the villagers with valuable supplementary income.

On the other hand, provision of goats/sheep to the villagers through the SHGs also seems to play a certain role on the uplift of livelihood among the villagers, but the beneficiaries were not mainly the poor households, as described below.

Finally, Table 3 shows the distribution of the SHG members among the five economic classes in the study village. First, it can be pointed out that despite the government's intention, the SHG women members in Si Village were not only from the poor households; on the contrary the percentage of households joining the SHGs was the highest among "upper middle" and "middle" at more than 70%. By contrast, the percentage of the rest of the three classes was only between 40–55%, much lower than the aforementioned two classes. Second, there were 22 women who participated in two SHGs and 9 women who participated in 3 SHGs. The result of scrutiny was that 12 members out of 15 TNCDW members were also members of other SHGs; 13 members out of 18 ASSEFA East members were also members of the other SHGs; 6 members were the participants of 2 PARD SHGs; and all the members who participated in 3 SHGs were members of TNCDW.

III　Rural Financial Market and the Impact of SHGs in the Study Village

Now we proceed to analyze the structure of the financial market in the study village, including the SHGs, by economic class (Table 4). The table shows the outstanding loans borrowed by the village households from informal sources. The informal sources included relatives, neighbors, moneylenders, land mortgage (*otti*), and the SHG revolving fund.

Table 3 Distribution of SHG Members to Five Economic Classes in the Study Village

Class	No. of HH	No. of HH Participating in 1 SHG	No. of HH Participating in 2 SHGs	No. of HH Participating in 3 SHGs	Total	Percentage	ASSEFA	PARD/Dhan Foundation					TNCDW
							East	Roja	Anjugam	Kanaki	Omsakti	Athipara-sakti	
Upper	15	4	2 [1]	1 [6]	7	46.7	2	1	2	4	1	0	1
Upper middle	17	6	6 [2]	1 [7]	13	76.5	2	1	4	2	2	5	5
Middle	37	17	5 [3]	6 [8]	28	75.7	8	8	5	9	5	3	7
Lower middle	39	15	5 [4]	1 [9]	21	53.8	2	4	6	3	4	7	2
Lower	26	7	4 [5]	0	11	42.3	4	2	3	1	3	2	0
Total	134	49	22	9	80	59.7	18	16	20	19	15	17	15

Source: Prepared by the authors.
Note: [1] East/Anjugam; Roja/Omsakti
[2] East/Roja; Anjugam/Anthiparasakti; Anjugam/TNCDW (2); Kanaki/TNCDW; Anthiparasakti/TNCDW
[3] East/Anjugam; East/Kanaki; Roja/Omsakti; Kanaki/Omsakti; Roja/TNCDW
[4] East/Roja; East/Anjugam; Roja/Anthiparasakti; Anjugam/Anthiparasakti; Roja/TNCDW
[5] East/Roja; East/Anjugam; East/Omsakti; Roja/Omsakti
[6] East/Kanaki/TNCDW
[7] East/Omsakti/TNCDW
[8] East/Roja/Kanaki; East/Roja/TNCDW; East/Kanaki/TNCDW (2); East/Anjugam/TNCDW; Anjugam/Kanaki/TNCDW
[9] Roja/Omsakti/TNCDW

Relatives were divided into three categories: one were relatives between parents and children (household already divided), the other were relatives who had migrated from the village, and the last were the other relatives, including in and out-side the village. The latter two types of relatives sometimes play an important role in providing the necessary costs for higher education, as argued in Sato [2011] in this special issue. All the credit transactions among the relatives are made without charging interest, and sometimes even the principal is written off.

On the other hand, neighbors usually provide only a small amount of money without charging interest, which is locally called "*kaimathu*." The term "*kaimathu*" literally means "money returned by labor works" and it had been widely observed between rich-patrons and poor-clients before. Such a practice used to be concentrated among poor women in female-headed households. For instance, if a poor woman borrowed Rs.600 from a patron (farmer) she repaid it by giving her labor for 12 days (given the prevailing wage rate of Rs.50).[10] Repayment by labor works was not confined to farming but extended also to household works such as sweeping. However, at the time of our survey, such a practice between patrons and clients had almost disappeared, and instead small money transactions among the poor households without interest, also called "*kaimathu*," were observed.

10) As a practice in the study village, interest was charged in the case of borrowing for more than 2 weeks, therefore loans for less than 2 weeks were more commonly observed.

Table 4　Informal Borrowings by Source of Funds

Class	No. of HH	HH Borrowing from Informal Sources	Informal Financial Sources													
			Relatives						Neighbors		Moneylenders		Land Mortgage (*otti*)		SHG Revolving Fund	
			Parent-child Relation in Separated HHs		Relatives Migrated from Si Village		Other Relatives									
			HH	Range of Loan Amount	HH	Range of Loan Amount	HH	Range of Loan Amount	HH	Range of Loan Amount	HH	Range of Loan Amount	HH	Range of Loan Amount	HH	Range of Loan Amount
Upper	15	9											5	5,000–125,000	7	1,500
U. Middle	17	15	1	NA	1	25,000	2	10,000–50,000	1	NA			8	7,000–15,000	13	600–5,000
Middle	37	34	2	NA	3	10,000–20,000	5	5,000–45,000	8	500	7	5,000–45,000	6	5,000–20,000	27	900–5,000
L. Middle	39	31	2	NA	4	10,000–60,000	1	25,000	4	3,000–4,000	4	10,000–30,000	7	5,000–12,000	21	1,000–2,700
Lower	26	20	1	NA	2	80,000	1	NA	6	100–1,000	7	8,000–25,000	1	3,500	11	1,800
Total	134	109	6		10		9		19		18		27		79	

Source: Fieldwork by the author in 2007–09.
Notes: Other relatives include households whose living place is unknown (some may include migrated households).

"Moneylenders" here refers to village moneylenders. There were 10 moneylenders (from 8 households) in the study village, 7 from the "upper," 2 from the "upper middle," and 1 from the "middle" classes respectively. At the time of the survey, households which had borrowed from moneylenders were: 7 "middle," 4 "lower middle," and 7 "lower" households. The interest rates charged by the moneylenders were usually 3% per month, but sometimes 1–2% per month, depending on the relationship between both parties. According to our field survey, the interest rate charged by moneylenders was as high as 5–10% per month until the end of the 1980s, but after the introduction of SHGs, it declined to 1–3% per month. This seems to be one of the most notable impacts of SHGs on the financial market in the village. However, at the same time, it should be noted that, nevertheless, not a few households, especially poorer households, still had to depend on moneylenders. And the amount of money borrowed from moneylenders was found to be large; all the cases exceeded Rs.5,000, and some went up to Rs.45,000. If this is compared to the amount of money borrowed from the SHG's revolving fund, the limitation of SHGs in the village is evident (Table 4).

Finally, borrowing money by mortgaging farmland (*otti*) was also observed widely in the village. Usually Rs.10,000 per acre of farmland should be deposited to those who lent money. One can borrow substantial amounts of money through land mortgage, but of course it is only possible for landowners. It can be discerned from Table 4 that when poor villagers want to borrow the amount which landowning villagers can borrow through land mortgage, they usually have to rely first on relatives, if available, and second on moneylenders, if there are no such relatives.

Let us now turn our attention to the formal credit, mainly from banks (Table 5). It should be noted

Table 5 Households with Loans from Formal Sources

Class	No. of HH	Office (military)		Commercial and Coop Banks						No. of SHG Members Borrowing from Banks at least once	SHG-Bank Linkage				No. of HH Borrowing from Banks through SHG Only	Percentage
						Usage					Usage					
		HH	Range of Loan Amount	No. of HH	Range of Loan Amount	Agri [1]	House repair	Education	Others [2]		Agri [1]	House repair	Education	Others [2]		
Upper	15	3	60,000–100,000	8	15,000–350,000	7	1		1	7	4			3	3	42.9%
U. Middle	17			6	8,000–300,000	3	2	1		13	3	1	2	5	7	53.8%
Middle	37			20	12,000–75,000	9	6	2	2	27	7	2	1	5	10	37.0%
L. Middle	39			9	10,000–25,000	8		1	4	21	5	3		2	18	85.7%
Lower	26			4	2,500–5,000	1	1		2	11	1	2		5	10	90.9%
Total	134	3		47		28	10	4	9	79	20	8	3	20	48	35.8%

Source: Field work by the author in 2007–09.
Notes: [1] Includes money for renting-in land and livestock rearing.
[2] Includes consumption and medicine.

here that all the 79 households which participated in SHGs got a bank loan at least once, but at the time of our household survey in 2008 only 3 SHGs, the ASSEFA East, the "Kanaki," and the "Omsakti," had outstanding bank loans. The usage of bank loans through SHGs in the table shows the latest case of bank loans. The major findings from the table are as follows.

First, a loan from the military office was observed only among the "upper" class households. Second, the amounts of bank loans other than through the "SHG-Bank Linkage program" were usually much larger than the bank loans through SHGs, which were usually only Rs.10,000 per member. Third, bank loans through SHGs were used by the borrowers more for consumption, including medical expenses. Fourth, however, most of the borrowers from banks among the poorer households could first borrow from banks after joining the SHGs. For example, out of 14 households with bank loans in the "lower" class household, 10 households (71.4%) received bank loans only through SHGs, and out of 27 households with bank loans in the "lower middle" class, 18 households (66.7%) received bank loans only through the SHGs. In this sense, we can recognize a notable impact of the SHGs. However, it should also be noted that the small amounts that could be borrowed from banks through SHGs had an apparent limitation, if we consider that the poor households sometimes had to depend on moneylenders when they needed an amount of money far exceeding Rs.10,000.

To sum up, the SHGs had had favorable impacts on the financial market in the study village to some extent, although there was an apparent limitation. The major limitation was due to the small size of loans through SHGs, either from its revolving fund or from banks. Another major limitation of the SHGs lay in the fact that the poorest people found it difficult to join SHGs, especially women from the female-headed households. That is, out of 13 female-headed households in the "lower" class only 3 households (23%) joined SHGs, compared to 42% in the class as a whole, and similarly, out of 13 female-headed households in the "lower middle" class only 6 households (46%) joined SHGs, compared to 54% in the class as a whole. Here again we confirmed the stylized fact that micro-finance tends to bypass the poorest people.[11)]

On the other hand, at the same time we need to emphasize the significance of the SHGs for the non-poor in the study village, because as noted before, the percentage of households joining SHGs was the highest among "upper middle" and "middle," compared to the remaining three classes. That is, out of a total of 17 households in the "upper middle" class, 13 households (76%) joined at least one SHG, and out of the 13 households 7 (54%) joined in more than 2 SHGs. Similarly, out of a total of 37 households in the "middle" class, 28 households (76%) joined at least one SHG, and out of the 28 households 11 (39%) joined more than 2 SHGs. The same figures for the "lower middle" class were 54% and 29%, and for the "lower" class 42% and 36%, respectively. The same figure for the "upper" was also lower; 47% and 43%.

According to our interview with a branch post master in the post office at the study village in January 2010, the number of various long-term deposit accounts such as time deposits, recurrent deposits, and accounts under the "Rural Postal Life Insurance" has been increasing rapidly in recent years. The number of time deposits (1 year, 2 years, 3 years, and 5 years) was 25 in the study village (with 134 households), most of which were for 1 year or 2 years, with an interest rate of 6.6% per year. The average saving amount for time deposit was Rs.5,000–15,000, and the maximum was Rs.60,000.

The number of recurrent deposits was roughly 300, including the two villages adjacent to the study village. Usually villagers saved Rs.50–200 per month (maximum Rs.500), for 3–5 years. They can get an accumulated amount of savings with interest (the interest rate was 7.5% per year). Lastly, the number of accounts under the "Rural Postal Life Insurance" was 42 in the study village. In addition, it was found that there were many villagers who saved in a private life insurance company whose staff came to the village regularly.

In sum, in recent years there have been increasing opportunities to save in various forms for the villagers. It seems that one of the saving opportunities was the SHGs. If one joins an SHG, the monthly saving is Rs.50 and after 5 years she can get roughly Rs.5,000. If she joins 2 SHGs, monthly saving becomes Rs.100 and after 5 years she can get Rs.10,000. Similarly, in the case of joining 3 SHGs, she can get Rs.15,000 after 5 years. Since the mid-1990s, the shift of occupation from agriculture to

11) For instance, see Fujita [2000] on the case of Bangladesh.

non-agricultural sectors has accelerated and the income of rural households started to rise rapidly in rural Tamil Nadu, including our study village [Sato 2011]. It seems that this context accounts for the emergence and rapid rise of surplus money in the hands of rural residents (except for the poorest), which has started to be saved in various forms,[12] one of which was the savings in the SHGs.

Concluding Remarks

In this article, we analyzed the process of introduction and development of the SHGs in a study village, which was located in the Madurai District. Then, we tried to evaluate the impacts of the SHGs on poverty alleviation in the village. We found that the SHGs had certain impacts on poverty alleviation through the decline of interest rates in the informal financial market, although there was an apparent limitation. The major limitation arose from the small size of loans through the SHGs, either from its revolving fund or from banks, but another major limitation of the SHGs lay in the fact that the poorest people found it difficult to join the SHGs, especially the poorest women from the female-headed households. On the other hand, in recent years, there were increasing opportunities for village people to save in various forms. Since the mid-1990s, the shift of occupation from agriculture to non-agricultural sectors has accelerated and the income of rural households started to rise rapidly in rural Tamil Nadu, including our study village. And the increased income allowed many villagers to save SHG provided the villagers with one of such saving opportunities, along with banks, post offices and life insurance companies, etc.

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12) Besides post office and life insurance companies, we observed that a special form of chit fund, which stemmed from the word "*chitty*" in Tamil (indicating a written piece of paper used for allotment), was used in Si Village before. According to a village informant, the neighborhood women used to get together regularly to pool some money to create a fund, which was then used to prepare sweets for the *Deepavali* festival. The sweets were distributed to all the members. But today this practice has already disappeared.

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